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Public Housing: Appreciating Assets?

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Citation

PHANG, Sock Yong. Public Housing: Appreciating Assets?. (2012). *Singapore Perspectives 2012, January 16*. Research Collection School Of Economics.

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Monday, 16 January 2012

Panel II Social Development “Working together: Towards a new social compact?”

Public Housing - Appreciating Assets?

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Abstract:

The topic of HDB housing is one that is close to the hearts and minds of the majority of Singaporeans. The first part of the presentation will provide a brief overview of price trends in Singapore’s housing sector.

The second part delves into the market and policy factors behind the rapid increase in HDB housing prices since 2006. The monograph “Reflections on Housing a Nation” published by the Ministry of National Development in February 2011, contains numerous statements on the goals of housing policy. Briefly, the government is committed to affordable home ownership as a major pillar of Singapore’s public housing policy. It tracks the Housing-Price-to-Income Ratio as well as the Debt Service Ratio for new HDB flats closely as housing affordability indicators. In addition to housing affordability objectives, HDB flats are also assets which the HDB commits “to upgrade (from time to time, budget permitting)” and “whose value can be unlocked, if needed.” It is not surprising therefore that market fundamentals, coupled with credible government commitment to both housing affordability and asset appreciation, have caused housing to be perceived as an attractive asset to buy and hold.

The third part of the presentation will discuss the challenges posed by the government’s set of policy commitments to public housing. Amongst these has been the need to discourage speculation and investment in housing. In this regard, during the period from September 2009 to December 2011, there were in all 4 rounds of measures to dampen the housing market.

Introduction

1. The topic I have been asked to speak on this morning “Public Housing – Appreciating Assets” is indeed uniquely Singaporean. I prefer the term ‘HDB Housing’ as ‘public housing’ elsewhere usually refers to ‘social rental housing’ for which asset appreciation is unlikely to be a topic of discussion.
2. HDB is undoubtedly one of the greatest social policy successes in Singapore’s short history. It has played and will continue to play an important role in the building of an inclusive society – by making housing available and homeownership affordable, and in the process reducing the barriers across income and racial groups. Subsidies for numerous housing schemes constitute an important part of welfare policy in Singapore that is often overlooked in discussions on income inequality. Yet, in the run up to the General Elections last year, housing turned out to be one of the most contentious issues.
3. What happened? Certainly, the spectacular rise in housing prices was a major factor. I will start by providing the statistics on prices. I will then explain the reasons for the increase and, finally, discuss the challenges that this poses for future housing policy.

Statistics on housing price appreciation

4. First, the statistics. In the past 6 years, HDB resale prices rose by 86%. In absolute terms, the median price of a resale 5-room flat in Ang Mo Kio increased from \$327,000 to \$609,000. This increase of \$282,000 is more than 4 times the median annual income of resident households.
5. The rate of appreciation of HDB new flat prices has followed a similar trend. Comparing the mid-points of the price ranges for BTO flats offered in Sengkang in 2005 and 2011 yields an increase of 85%, closely tracking resale prices.
6. This continuous upward trend is in contrast to the URA private housing price index and the STI both of which tumbled during the world financial crisis. The private

housing market turned around quickly while the STI recovered and then declined by 17% last year. Unlike shares and other property markets that exhibit cyclical behavior, HDB housing appears to be recession proof.

Reasons for appreciation of HDB prices

7. Now, let's examine the likely reasons for the rapid increase in housing prices. The standard textbook answer would be to point to the imbalance in supply and demand.
8. On the demand side, average nominal wages rose by 27%, only slightly outpacing the CPI which increased by 19%. The main factor driving demand would be the population increase of 800,000 persons, with real GDP growing by 43%. Demand was also fueled by monetary factors: money supply M2, M3 doubled during the period, with interest rates at ultra low levels. The appreciation in the S\$ against the US\$ added to the attractiveness of investing in S\$ assets.
9. In contrast, on the housing supply side, over the same period, the total stock of housing increased by only 61,000 units - around 5%. HDB dwelling units under management increased by a mere 23,000 units or 2.6% over a five year period.
10. Given this large imbalance between demand and supply, not surprisingly, housing rents and prices rose. I would however like to highlight another contributory factor driving demand for housing – that of housing policy.
11. The monograph “Reflections on Housing a Nation”, published by the Ministry of National Development last year, contains numerous statements on the goals of housing policy. Put briefly, the HDB is committed to a life cycle approach. It helps young couples buy their first flat through subsidies. The flats are also assets which it commits “to upgrade” and “whose value can be unlocked for retirement, if needed.” How do these oft-repeated policy goals contribute to price appreciation?
12. First, let us consider housing affordability. Government statements frequently refer to the House-Price-to-Income Ratio as well as the Debt Service Ratio for new HDB

flats as affordability indicators. The government considers housing to be affordable when households spend around 5 years of annual income for the HDB flat they buy, and the monthly mortgage installments to income ratio is in the range of 23% - which is the monthly CPF contribution that can be used for housing mortgages.

13. Statistics released each year indicate that HDB applicants for the different flat types do choose to commit on average 5 years of their annual household income for their housing purchase. However, and not taking into account the unmet demand of unsuccessful applicants, let us consider what 5 years of *median* annual household income can buy and how this has changed over time. While the median income household would be able to easily afford a 5-room flat in Sengkang at around 4 x annual income in 2006, the same flat would be more expensive to purchase, at closer to 6 x annual income in 2011.
14. With the appreciation in prices, Additional Housing Grants were first introduced in March 2006, and further enhanced in 2007 and 2009. The Special Housing Grant was introduced in March last year. These measures enhanced affordability but what is affordable may not be available. The demand side subsidies further contributed to raising prices, and coupled with the minimal HDB supply over the same period, added to the frustration of applicants who were repeatedly unsuccessful in their ballot for a BTO flat. For example, the February 2011 BTO sales launches were oversubscribed by five times.
15. Let us turn now to consider the policy commitment to housing asset appreciation over time in order to provide for retirement. Findings from the 2008 HDB Sample Household Survey confirm that housing has become a significant financial source to meet old age needs. More than 21% of elderly households in 2008 rely on housing related financial sources in their retirement years. The findings also indicate that these sources will become more important for the “future elderly”.

16. When compared with returns on other assets, we can consider the HDB sector to be a “star” performer. The long term rate of price appreciation for new flats is expected at the minimum to track income growth and has been higher. These returns are further enhanced by imputed rents of owner-occupation, and by housing subsidies over the life-cycle. And such returns are further magnified via leverage through easily available housing loans.
17. In addition, economic and local factors -- sound macroeconomic management, population growth, capital inflows, an appreciating S\$, land scarcity, careful long term land use planning, expectations that the government will deliver on its commitments, all contribute towards the attractiveness of buying a HDB flat.
18. Standard asset pricing theory predicts a positive relationship between return and risk. Risk averse agents require higher returns to reward higher risk. This positive risk-return relationship does not appear however to hold for HDB housing. Yes, the HDB resale price index did fall sharply once (only once), *but* that is a distant memory for most – more than a decade ago during the Asian financial crisis.
19. Investing in housing in recent years certainly dominates bank deposits or CPF savings which have yielded negative real returns. Not surprisingly, cash constrained households in Singapore max out their CPF contributions for mortgage payments, while many foreigners were, at least until last month, happy to pay cash if necessary for multiple private properties.

Challenges for the future: the HDB policy conundrum

20. To summarize thus far, in addition to fundamental forces driving housing consumption demand, there are several good reasons for Singaporeans and for foreigners to hold housing assets in Singapore. I now come to the final part of my presentation – which is to discuss the *challenges* that this housing investment bias pose for future housing policy.

21. First, current policy favors homeownership and housing investment to such an extent that it has caused shifts in economic and investor behavior. In the longer term, there can be macroeconomic consequences as it can affect willingness to invest in the non-real estate sectors of the economy as well as in productivity improvements.
22. Secondly, there is a need for frequent measures to discourage speculative behavior and to counter excessive investments, as the herd mentality of investors can lead to property bubbles, which when burst, can have serious consequences for the health of the financial sector and the economy. Numerous restrictions in the HDB sector exist for this purpose. The private housing sector has become increasingly subject to macro-prudential policies and rightly so, given the close correlation between prices in the two sectors. Since 2003, limits have been placed on the amounts of CPF savings which can be withdrawn for housing purchases. During the period from September 2009 to December 2011, there were in all 4 rounds of intervention measures to temper the exuberance of the housing market.
23. Third, a political problem is posed in relation to allocation of scarce land and budgetary resources in a variety of contexts - for housing versus other purposes, public versus private housing, and within the HDB sector, for competing housing schemes.
24. The fourth consequence relates to the distribution of housing wealth. Housing wealth is an important component of household wealth, and wealth is much more unevenly distributed than earnings. Rapid housing price appreciation can contribute to greater inequality in wealth distribution between various groups of winners and losers, as follows:
 - (a) investors, landlords, homeowners versus renters and those waiting to become homeowners,
 - (b) downgraders and upgraders,

- (c) households exiting and those entering the housing market,
- (d) the higher income and wealthy with access to credit and those with limited access to credit,
- (e) the financially savvy investor-speculators and those who are risk averse or not as financially disciplined or savvy. Real estate investment skills are not easily taught or learnt. Differing risk appetites, financial literacy, access to credit and ability to time market entry and exit cause rewards from housing investment to vary tremendously from one household to the next.

25. If HDB housing is expected to appreciate sufficiently to be “unlocked” during the retirement phase, then, by implication, the younger generation entering the housing market need to be faced with market prices that are sufficiently high to be “unlocked” by the older generation for retirement. There is thus this tension amongst three objectives: housing affordability that is dependent on income levels, the amount of subsidies required to assist the younger generation to own homes, and housing price appreciation sufficient for retirement needs.
26. We need to question the implications of this life cycle approach and its sustainability for future generations. Over time, should housing become more expensive relative to increases in income, how will the widening gap be closed? In addition to government subsidies, parental help in financing home purchase may become more common. Yet, intergenerational wealth transfer to help close the gap may perpetuate the continuation of inequality from generation to generation.
27. It is not surprising therefore, that housing became a contentious topic in the run up to the General Election. Post election, there appears to be a major review underway. Within a few short months, we have seen much activity on the housing policy front. The significant increases in supply and recent additional stamp duties targeting foreign buyers and investors will help narrow the market price and affordability gap.

28. Recent events highlight the need for housing policy objectives and the market framework and institutions established for their implementation to be constantly reviewed for their continued relevance. The government has to be sensitive to the ever-changing dynamics of the interfaces between private housing and resale HDB, and between resale and new HDB sectors in their policy considerations. Given the regulated nature of our housing markets, what constitutes the true market value of housing, and of land? What should be the median house type in the future? What are sustainable housing policy goals?
29. There are many here this morning with strong views about the issues I have raised. I look forward to hearing from you in the discussion later. Thank you.

~~HDB~~ Public Housing- Appreciating Assets?

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16 January 2012

**SINGAPORE
PERSPECTIVES2012**
Singapore Inclusive: Bridging Divides

1

A great social policy success story

Houses
82% of
resident
households



Home
ownership
rate 87%

Housing welfare state

Subsidies for: PRS, HOS, DBSS, BTO, EC, CPF HG, AHG, SHG,
Mortgage Loans, SCCC, MUP, IUP, LUP, NRP, SERS, LBS, SA...

2

HDB housing – appreciating assets



Statistics

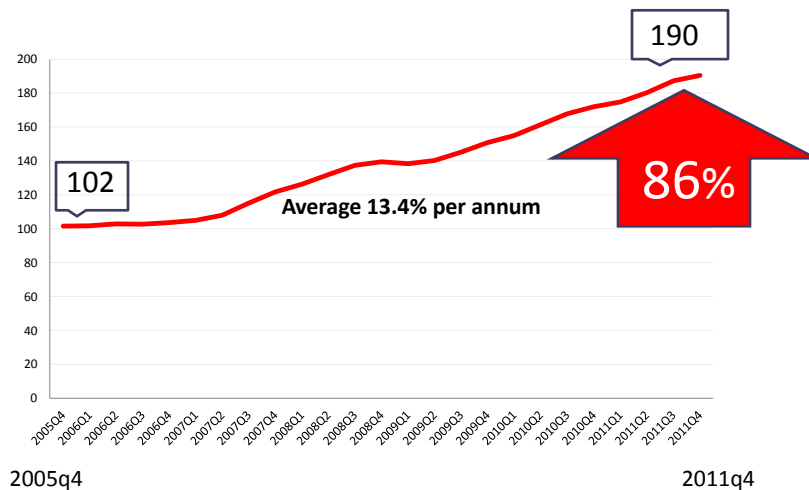
Reasons



Challenges for the Future

3

HDB Resale Price Index



4

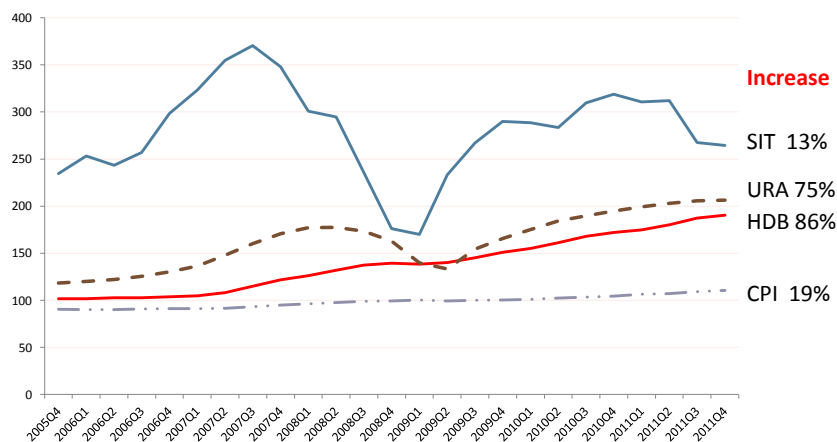
New HDB prices trend resale flat prices

	2005 Q4	2011	Increase
Ang Mo Kio median resale price 5- rm HDB ('000)	\$327	\$609	\$282 86%
Sengkang new 5-room HDB flat Prices ('000)	\$159 – \$231	\$279- \$444	\$167 85%
URA Private Housing Price Index	118.2	206.2	75%
URA Private Housing Rental Index	92.7	158.5	71%

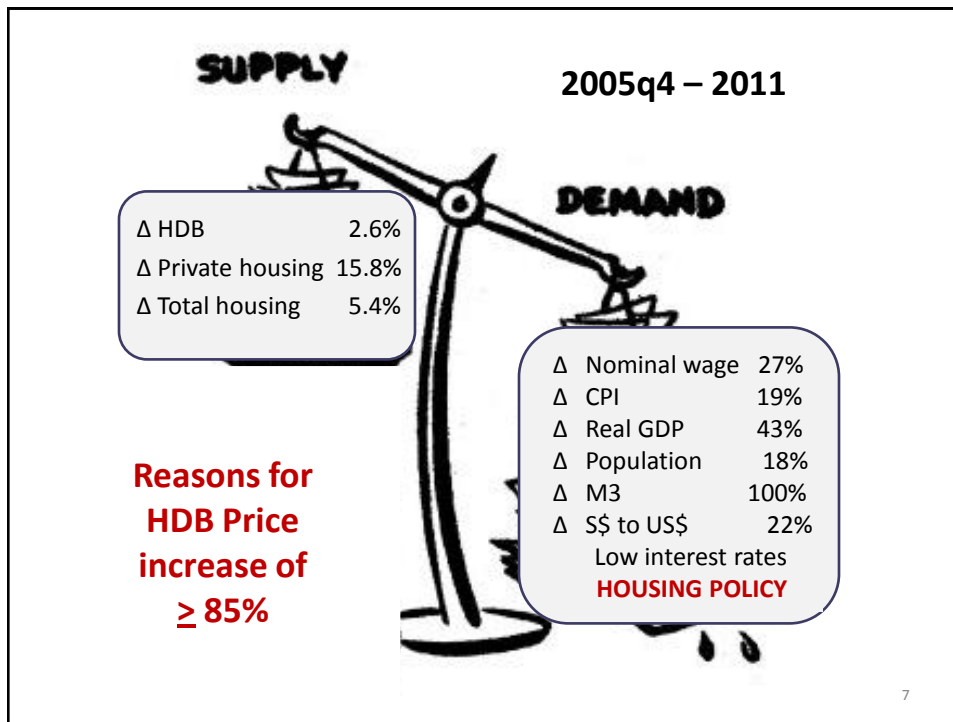
“New flats are priced based on what professional valuers assess similar flats would fetch in the open market, but discounted with a substantial subsidy.”
Minister for National Development, *TODAY*, 29 Oct 2010

5

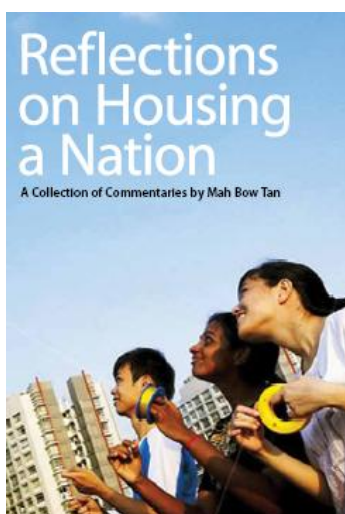
HDB Asset: Recession Proof?



6



Housing policy pronouncements



“HDB adopts a **life-cycle approach** to cater to Singaporeans at different stages of their lives.

First, it helps young couples to **buy their first flat** through generous housing subsidies.

Second, HDB helps to **maintain the value** of aging flats through an extensive upgrading program.

Third, when flat owners retire, HDB helps them to **unlock the value** of their flats by right sizing to a smaller flat or subletting their rooms or flats...”

Housing affordability

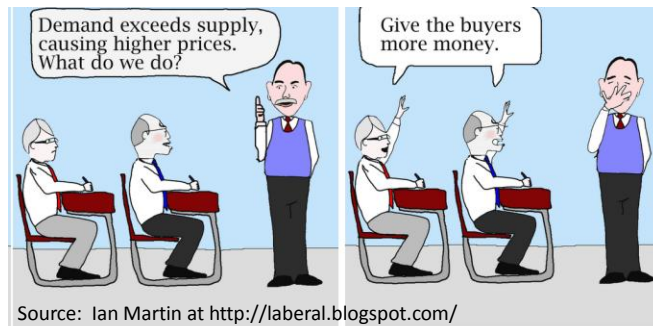
“The BTO prices are about **5 years of their annual income**, and with government housing grants, their monthly installments are affordable, often with little cash outlay.”

Minister for National Development
22 Nov 2011

	Nominal Median Household Income per mth	Housing Price to Income Ratio for Sengkang BTO flats	
		5 rm	4 rm
2006	\$4000	4.1	3.5
2011	\$5250*	5.7	4.4

*Assume increase of 5% over 2010

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Additional CPF Housing Grants

Introduced in March 2006

Enhanced in August 2007

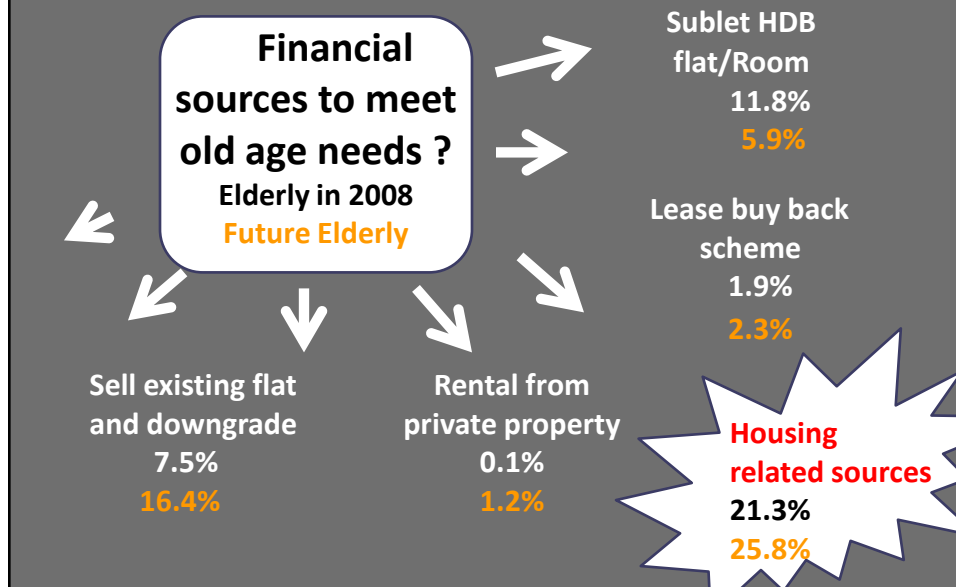
Further enhanced in Feb 2009

Special Housing Grants

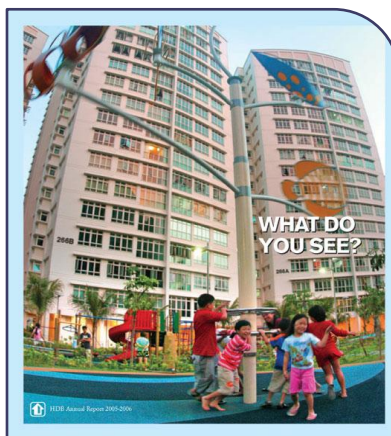
Introduced in March 2011

10

An asset to “unlock” for retirement

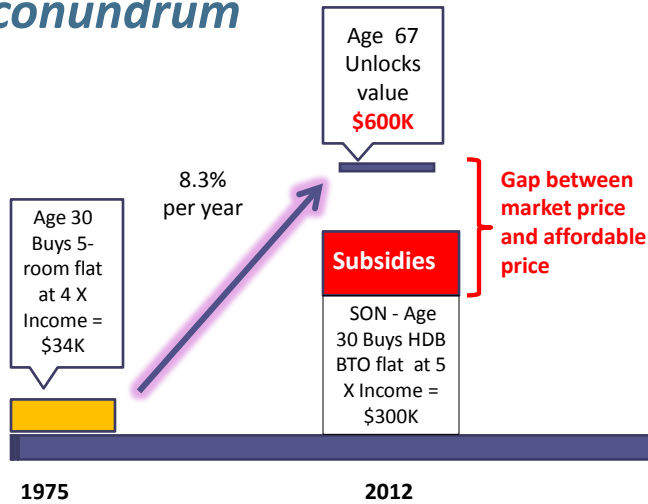


Challenges for the future



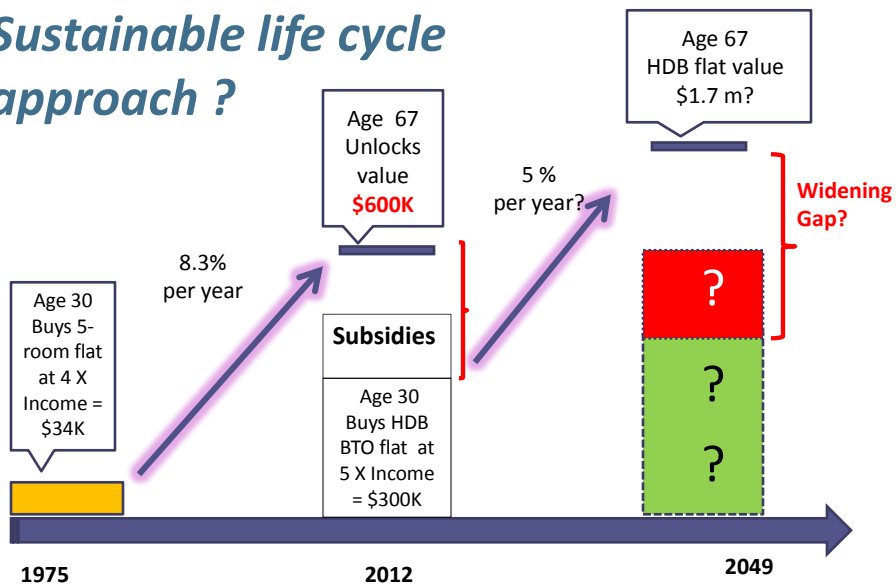
- Macroeconomic implications
- Policies to mitigate housing investment bias
- Political problems of allocation
- Housing wealth divide

Housing policy conundrum



13

Sustainable life cycle approach ?



14

Post May 2011

May 2011

BTO changed
to Build
Ahead of
Order

Aug 2011

Income ceilings
raised for HDB
and Exec Condo

Dec 2011

Cooling measures
targeting foreign
buyers and investors

July 2011

Govt halts
DBSS land
sales



Land sales
HDB rental units
EC 5,000
HDB HOS:
28,000 in 2011
25,000 in 2012

Dec 2011

Tweaks to
Interim Renter
Housing Scheme

15

Rethinking housing policy

Interfaces between
private housing &
HDB resale, resale
& new HDB prices?

True market
values of
housing and
land ?

Future
median house
type/size?

Housing
affordability
policy?

Rate of housing
price
appreciation?

Policy
commitments?

Thank you...

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